



**CIO OFFICE MORNING MARKET WRAP – Sunday 21st February 2021.  
ALSO AVAILABLE ON ALEXA.**

The key news of last week converged to set the stage for a strong recovery in the quarters ahead. Markets took note with a sell-off in the most defensive, rate sensitive assets. There are three parts to the story. First, on the virus front, the recent numbers confirm a deceleration. The global daily new infections, at 400,000 currently, stand around half their peak of the second wave in early January. It looks like targeted restrictions are paying off, and in addition vaccinations are progressing quickly. As a result, and this is the second part, the economy is more resilient than many had forecast. Industrial activity and construction keep on improving, retail sales are surging in the US, and in China, the slowing is less severe than expected. Crucially, the US Secretary of Treasury confirms that the administration wants to “go big” on fiscal stimulus, and the Congress will likely approve most of the proposed package. This is not just the US of course: the G-7 leaders in particular centered their discussions on government spending. Finally, central banks are clear in their intentions to maintain an extraordinary support, and to tolerate a higher level of inflation.

Financial markets took note last week, but the story was more relative than absolute. Global equities were overall slightly negative, as many good news are already in embedded in their valuations and despite an extremely strong earnings season. They gained a mere 0.1% in emerging markets and lost 0.4% in developed regions, with, however, an unambiguous “risk-on” flavor in the sectoral hierarchy. Energy, Financials and Materials were the best performers while most of the negative numbers were to be found in defensive sectors. Indeed, the true reaction to a brighter outlook happened in defensive markets. Gold lost -2.2%, now down -6% in 2021, and all segments of fixed income were negative, also following an inverted risk hierarchy. The US 10-year Treasury Yield ended the week at 1.34%. Finally, Oil was steady, up more than 20% so far this year and closing just below \$63 for the Brent. Oil markets didn’t excessively react to the production outage in the US, but fundamentals remain reinsuring, between falling inventories and firm demand indicators. The next OPEC+ ministerial meeting at the start of March will give an important indication on supply.

Our current tactical positioning is unchanged and reflects a reasonably constructive outlook. No doubt, our modest overweight in Gold has a negative contribution. It is however more than compensated by our other active positions. Emerging market stocks, our largest overweight, are the best performing asset class so far in 2021 with more than +10%. Our largest underweight, i.e. the safest bonds, are down between 2 and 3%. As a result, our three profiles are up respectively 0.5%, 2% and 3.7% after less than two months, outperforming our strategic asset allocation. Bottom-line, our scenario is unfolding but valuations and consensual optimism are concerns: we remain vigilant and ready to take profits if needed. We keep on expecting volatility on markets, and will simply stomach it as long as we have upside potential to our year-end fair values.

In the week ahead, the earnings season will continue and central bankers will deliver speeches, especially Mr Powell on Tuesday. We will look at US consumer confidence on the same day.

Stay safe.

**MAURICE GRAVIER**  
Chief Investment Officer  
Wealth Management  
Emirates NBD.

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